The Real Estate ANALYST

NOVEMBER 1937

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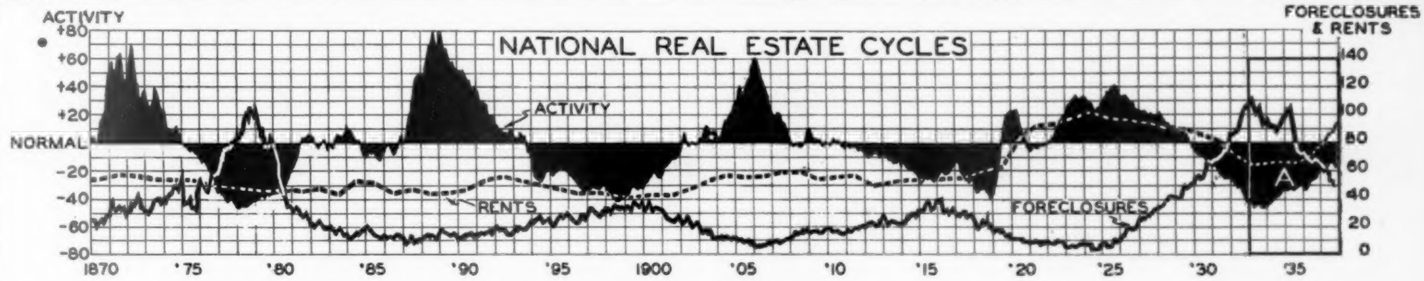
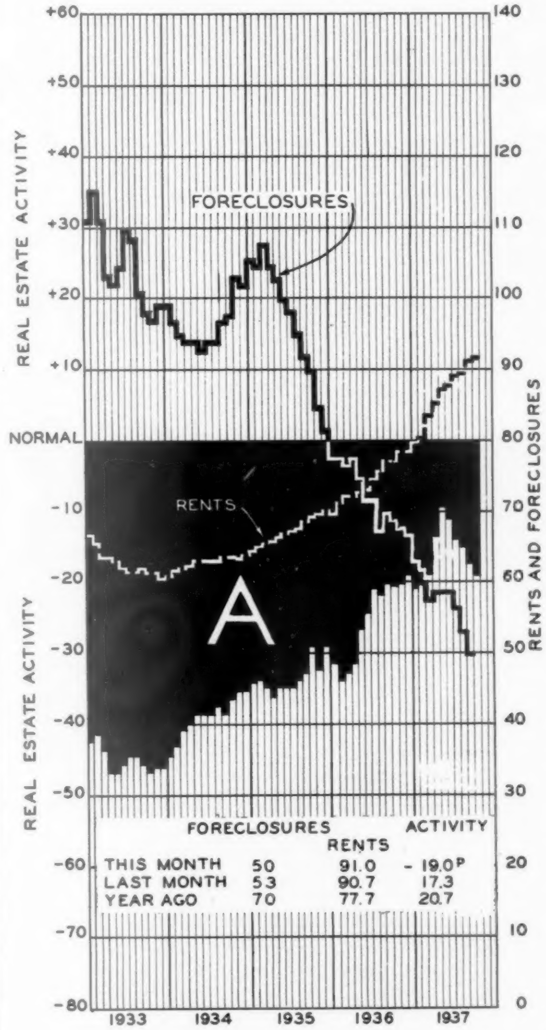
Editor

A concise easily digested monthly analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values...Current Studies...Surveys...Forecasts

Real Estate Economists, Appraisers and Counselors





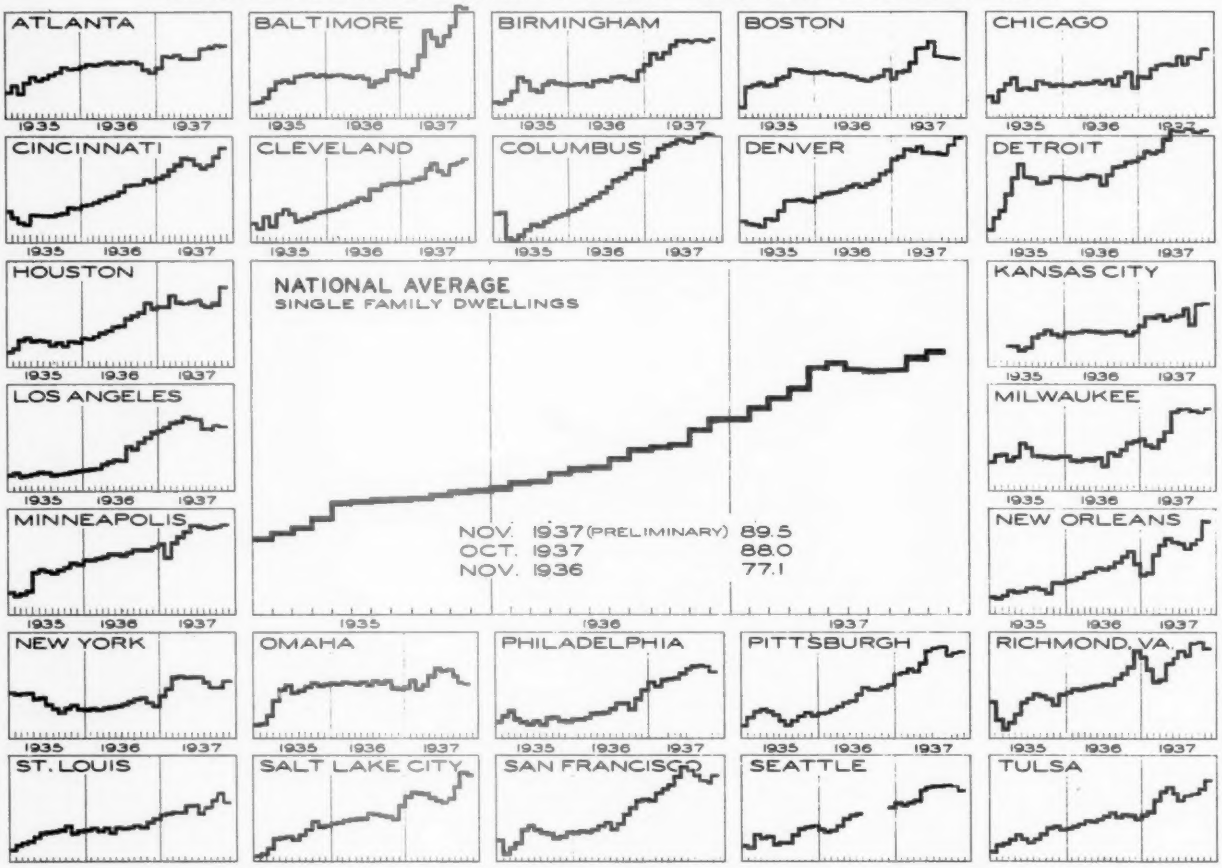
THE chart above shows the fluctuations of urban real estate activity, foreclosures, and rents in the United States from 1870 to the present. The chart to the left is the last five years of the upper chart enlarged to show monthly fluctuations. This chart is explained in detail in the article starting on page 632 in the November issue.

The national average of real estate sales continued to decline for the fifth successive month during October. This is not at all surprising as all indexes of general business have been declining at a record rate following the drop in the securities market. During a period in which the future is uncertain the average individual postpones the purchase of real estate. It is quite surprising that the drop has not been more rapid than shown on our chart.

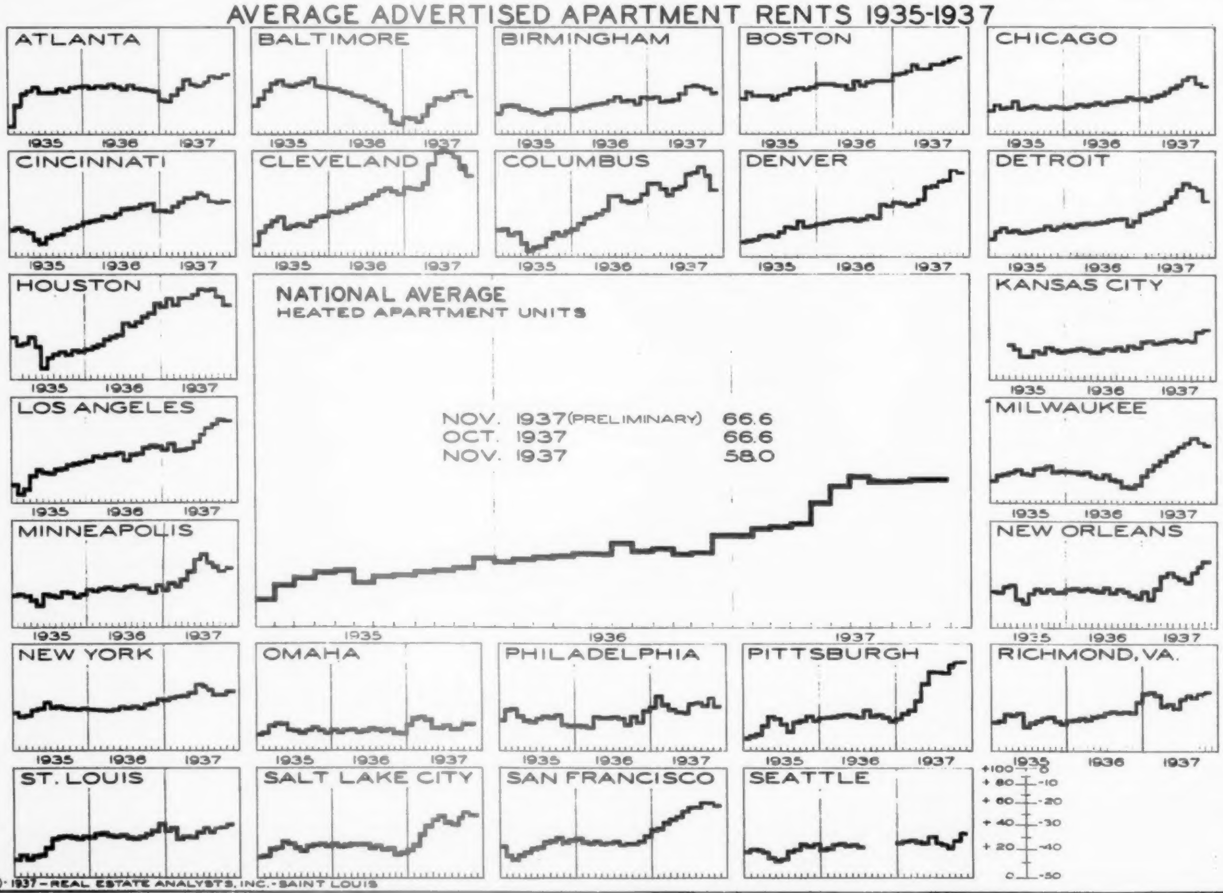
It is quite remarkable that in spite of the tremendous drop in the securities market, the increase in unemployment and the drop in production, our rent index has continued to climb and our foreclosure index has continued to drop. Rents have now reached the highest point in the recovery, and foreclosures have reached the lowest point since 1929.

While the recession which is now in progress has had an unprecedented severity, considering the duration, we are still inclined to believe that it represents a marked recession rather than a major depression. If the present rate of decrease continues, however, it will assume the proportions of the 1920 and 1921 collapse. The encouraging thing in connection with this collapse, however, is the relatively slight effect on real estate improvement.

AVERAGE ADVERTISED SINGLE FAMILY DWELLING RENTS 1935 - 1937



AVERAGE ADVERTISED APARTMENT RENTS 1935-1937



ADVERTISED RENTALS ON DWELLING UNITS

REAL Estate Analysts, Inc., computes the average advertised rent of single family dwelling and heated apartment units each month in the twenty-six metropolitan areas listed below. The figures given are average rents per month per room for all units of each type, large and small, advertised in the classified columns of the leading newspapers of each city. The figures given below, unlike the figures which appeared in earlier issues of The Real Estate Analyst, have been adjusted for seasonal fluctuation, as we have found some regular seasonal fluctuation in our advertised rental prices.

The average rent per month per room of all places advertised will vary considerably from month to month due to the inclusion some months of a larger number of either high or low priced units. The charts on the opposite page show these figures adjusted for seasonal fluctuation, city by city, with large composite charts showing the average fluctuations in principal cities. Advertised rents represent not what properties are actually renting for, but what the owners of the properties believe they will bring. After some adjustment in periods of depression for bargaining between the landlord and the tenant and for other concessions, we are convinced that these rents represent roughly the levels at which properties are being rented currently. The last figures are preliminary, based on the advertisements appearing during the first two weeks of the month.

1935

	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
SINGLE FAMILY DWELLINGS							
National Index	67.1	66.2	66.6	67.5	67.4	68.3	68.6
Atlanta	$6.43	$6.52	$6.66	$6.75	$6.97	$6.91	$6.93
Baltimore	5.81	5.71	5.98	5.99	6.03	5.91	5.99
Birmingham	5.11	4.85	4.80	5.01	5.12	5.05	5.03
Boston	6.89	7.19	7.27	7.61	7.58	7.45	7.40
Chicago	9.11	9.21	9.11	9.55	9.45	9.36	9.39
Cincinnati	7.83	7.82	7.81	7.90	7.93	8.23	8.19
Cleveland	8.10	7.86	7.43	7.70	7.73	7.92	8.00
Columbus	4.88	5.07	5.01	5.16	5.26	5.38	5.40
Denver	5.23	5.53	5.90	5.90	5.99	5.93	5.89
Detroit	9.13	8.40	8.35	8.10	8.18	8.42	8.42
Houston	7.18	7.11	6.90	7.06	6.87	7.10	7.09
Kansas City	4.50	4.56	4.88	4.98	5.10	4.96	4.90
Los Angeles	8.56	8.54	8.40	8.43	8.46	8.53	8.64
Milwaukee	8.90	8.64	8.20	8.19	8.13	8.12	8.15
Minneapolis	6.08	6.00	5.92	6.01	6.18	6.30	6.27
New Orleans	5.22	5.34	5.35	5.30	5.20	5.49	5.54
New York	12.36	11.92	11.61	11.43	11.62	11.82	11.59
Omaha	6.37	6.10	6.19	6.31	6.46	6.39	6.41
Philadelphia	5.57	5.63	5.48	5.77	5.78	5.68	5.66
Pittsburgh	6.99	6.76	6.59	6.77	6.96	7.10	6.98
Richmond	6.32	6.47	6.63	6.59	6.44	6.24	6.63
Saint Louis	6.62	6.64	6.65	6.78	6.91	6.68	6.73
Salt Lake City	5.30	5.20	5.34	5.57	5.58	5.65	5.69
San Francisco	7.56	7.36	7.22	7.17	7.00	7.05	7.28
Seattle	5.05	5.07	5.07	5.31	5.56	5.62	5.65
Tulsa	6.34	6.28	6.38	6.58	6.86	6.95	6.79
HEATED APARTMENT UNITS							
National Index	54.7	55.3	55.5	55.8	56.1	56.3	57.3
Atlanta	9.88	9.88	9.88	10.11	9.99	10.23	10.26
Baltimore	11.70	11.68	11.75	11.95	12.20	11.59	11.55
Birmingham	8.25	8.11	8.01	8.08	8.30	8.30	8.30
Boston	11.15	11.49	11.59	11.95	12.19	11.90	12.08
Chicago	11.33	11.39	11.51	11.40	11.38	11.47	11.43
Cincinnati	9.86	10.23	10.41	10.47	10.70	10.86	11.06
Cleveland	9.18	9.25	9.34	9.25	9.51	9.76	9.83
Columbus	7.90	8.05	8.09	8.58	8.89	8.72	8.94
Denver	9.73	10.01	10.43	10.27	10.76	10.43	10.48
Detroit	10.00	10.06	10.17	10.24	10.43	10.25	10.35
Houston	7.06	7.54	7.77	7.86	7.77	7.91	7.86
Kansas City	6.44	6.44	6.70	6.59	6.81	6.73	6.64
Los Angeles	10.96	10.88	11.22	11.27	11.47	11.62	11.69
Milwaukee	9.70	9.66	10.03	10.09	10.20	9.89	9.90
Minneapolis	8.75	8.68	8.65	8.86	8.81	8.67	8.73
New Orleans	7.70	8.18	8.40	8.23	8.38	8.28	8.28
New York	18.34	17.82	17.85	17.80	17.69	17.60	17.67
Omaha	10.27	9.97	10.13	10.22	10.40	10.23	10.07
Philadelphia	13.41	13.67	13.82	13.77	13.92	13.11	13.03
Pittsburgh	9.83	9.59	9.20	9.64	9.76	10.00	9.77
Richmond	9.41	9.62	9.76	9.93	9.97	9.77	9.68
Saint Louis	9.19	9.71	9.81	9.86	9.81	9.72	9.84
Salt Lake City	9.40	9.29	9.06	9.31	9.38	9.40	9.36
San Francisco	10.85	10.94	11.40	11.48	11.69	11.41	11.49
Seattle	9.51	9.65	10.06	10.21	10.58	10.48	10.52

1936

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
SINGLE FAMILY DWELLINGS												
National Index	68.9	69.6	69.8	70.9	71.4	71.7	71.0	74.1	74.5	74.9	77.1	78.9
Atlanta	$7.03	$7.16	$7.15	$7.20	$7.23	$7.17	$7.22	$7.21	$7.29	$7.15	$6.89	$6.75
Baltimore	5.92	5.94	5.95	5.91	5.89	5.93	5.85	5.60	5.76	5.81	6.18	6.20
Birmingham	5.01	5.03	5.06	4.98	5.13	5.15	5.13	5.27	5.28	5.20	5.18	5.50
Boston	7.40	7.42	7.31	7.29	7.30	7.25	7.23	7.09	7.05	7.20	7.30	7.55
Chicago	9.38	9.38	9.46	9.44	9.45	9.53	9.41	9.67	9.32	9.80	10.11	9.25
Cincinnati	8.34	8.38	8.53	8.68	8.83	8.93	9.11	9.50	9.53	9.54	9.83	9.70
Cleveland	8.07	8.13	8.30	8.40	8.59	8.75	8.69	9.28	9.27	9.48	9.53	9.60
Columbus	5.53	5.65	5.79	5.95	6.07	6.23	6.42	6.71	6.83	7.07	7.25	7.25
Denver	6.08	6.21	6.26	6.28	6.36	6.48	6.54	6.46	6.59	6.77	7.05	7.14
Detroit	8.35	8.32	8.29	8.40	8.55	8.51	8.09	8.49	9.03	9.04	9.31	9.35
Houston	7.22	7.21	7.35	7.50	7.62	7.81	7.85	8.29	8.40	8.62	9.15	8.84
Kansas City	5.04	5.02	5.05	5.10	5.09	5.05	5.03	5.05	5.07	5.05	4.94	5.03
Los Angeles	8.68	8.72	8.74	9.04	9.18	9.28	9.25	10.05	9.85	10.34	10.62	11.12
Milwaukee	8.15	7.99	7.98	8.03	8.00	8.10	7.73	8.38	8.23	8.56	8.98	9.08
Minneapolis	6.42	6.42	6.49	6.56	6.67	6.67	6.64	6.78	6.85	6.85	6.85	6.99
New Orleans	5.64	5.65	5.74	5.90	5.98	6.10	6.05	6.13	6.34	6.55	6.78	6.24
New York	11.52	11.59	11.52	11.69	11.71	11.77	11.99	12.14	12.38	12.43	12.12	11.77
Omaha	6.46	6.40	6.47	6.44	6.42	6.50	6.37	6.50	6.47	6.52	6.27	6.22
Philadelphia	5.70	5.70	5.75	5.90	5.95	5.97	6.11	6.30	6.30	6.19	6.49	6.85
Pittsburgh	7.10	7.12	7.26	7.39	7.59	7.67	7.95	8.33	8.28	8.28	8.33	8.51
Richmond	6.71	6.86	6.85	6.90	6.96	7.07	7.11	7.10	7.39	7.69	7.98	8.88
Saint Louis	6.79	6.82	6.76	6.82	6.65	6.86	6.81	6.84	6.93	6.86	7.15	7.30
Salt Lake City	5.78	5.79	5.90	5.94	5.97	6.00	6.15	6.11	6.08	6.04	5.94	6.45
San Francisco	7.26	7.31	7.29	7.36	7.54	7.70	7.41	7.70	8.18	8.52	8.97	9.01
Seattle	5.55	5.45	5.51	5.70	5.96	6.09	6.19	x	x	x	x	6.40
Tulsa	6.84	6.95	7.06	7.14	7.12	7.26	7.38	7.52	7.34	7.45	7.41	7.27
HEATED APARTMENT UNITS												
National Index	56.9	57.3	57.6	57.5	58.0	58.0	59.1	58.2	58.4	57.9	58.0	60.1
Atlanta	10.28	10.20	10.32	10.31	10.45	10.34	10.20	10.35	10.21	10.13	10.04	9.96
Baltimore	11.49	11.48	11.23	11.21	10.98	10.85	10.64	10.50	10.26	9.95	9.26	9.20
Birmingham	8.29	8.36	8.40	8.53	8.55	8.60	8.80	8.97	8.77	8.80	8.59	8.92
Boston	12.30	12.30	12.30	12.23	12.20	12.05	12.70	12.26	12.51	12.55	12.59	12.53
Chicago	11.40	11.46	11.58	11.51	11.61	11.71	11.61	11.80	11.82	11.90	12.20	12.03
Cincinnati	11.26	11.36	11.47	11.69	11.63	11.91	12.33	12.40	12.44	12.67	12.70	12.20
Cleveland	10.10	10.09	10.15	10.40	10.60	10.67	11.00	11.27	11.57	11.68	11.53	11.36
Columbus	9.07	9.38	9.74	9.76	10.00	10.21	11.30	11.30	10.79	10.74	10.82	11.38
Denver	10.53	10.60	10.71	10.72	10.76	10.86	10.69	10.90	11.15	10.98	11.99	11.92
Detroit	10.49	10.40	10.59	10.61	10.59	10.65	10.69	10.81	10.88	10.90	10.46	10.74
Houston	8.00	8.12	8.26	8.53	8.70	8.78	9.47	9.31	9.50	9.87	10.12	10.69
Kansas City	6.68	6.73	6.78	6.73	6.68	6.68	6.79	6.74	6.86	6.71	6.90	6.85
Los Angeles	11.75	12.09	12.07	12.21	12.21	12.44	12.79	12.33	12.36	12.79	12.96	12.92
Milwaukee	9.88	9.85	9.73	9.85	9.64	9.51	9.70	9.40	9.34	9.06	9.05	9.13
Minneapolis	9.00	8.94	9.05	9.11	9.04	9.03	9.14	9.19	9.04	9.04	8.86	9.22
New Orleans	8.41	8.49	8.35	8.44	8.37	8.34	8.54	8.24	8.42	8.28	8.10	7.95
New York	17.58	17.56	17.57	17.57	17.67	17.80	17.74	17.88	17.68	18.05	18.22	18.72
Omaha	10.23	10.11	10.21	10.24	10.10	10.21	10.38	10.32	10.27	10.30	10.00	10.02
Philadelphia	13.07	13.10	12.95	12.85	12.82	12.82	12.85	12.76	13.11	13.87	13.48	14.44
Pittsburgh	9.91	9.92	9.96	10.02	10.03	10.02	9.99	10.45	10.11	10.16	9.95	9.72
Richmond	9.80	9.89	10.01	9.85	10.01	10.03	10.29	10.41	10.31	10.41	10.40	11.00
Saint Louis	9.79	10.04	10.07	9.96	9.89	9.95	9.76	9.74	9.79	10.04	10.23	10.57
Salt Lake City	9.45	9.33	9.40	9.45	9.45	9.45	9.30	9.37	9.19	9.21	8.90	8.94
San Francisco	11.59	11.44	11.39	11.49	11.30	11.38	11.49	11.22	11.30	11.30	11.42	11.81
Seattle	10.23	10.37	10.53	10.60	10.50	10.56	10.46	x	x	x	x	10.32

1937

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept	Oct.	*Nov.
SINGLE FAMILY DWELLINGS											
National Index	78.9	80.6	82.0	83.9	86.1	87.0	86.8	86.0	86.5	88.0	89.5
Atlanta	$6.99	$7.50	$7.47	$7.56	$7.37	$7.33	$7.33	$7.79	$7.85	$7.96	$7.85
Baltimore	6.05	5.96	6.22	6.74	7.84	7.50	7.11	7.58	8.08	9.13	9.04
Birmingham	5.70	6.13	5.93	6.19	6.41	6.60	6.59	6.45	6.52	6.52	6.60
Boston	7.19	7.48	7.55	7.91	8.58	8.64	8.98	8.20	8.17	7.95	7.98
Chicago	9.85	9.83	10.31	10.55	10.62	10.56	11.11	10.65	11.00	10.87	11.62
Cincinnati	9.98	10.12	10.49	10.79	11.29	11.18	10.60	10.48	10.68	11.22	11.80
Cleveland	9.65	9.62	9.82	9.95	10.40	10.62	10.25	9.99	10.62	10.64	11.00
Columbus	7.64	7.86	8.22	8.44	8.54	8.65	8.60	8.54	8.74	9.00	8.94
Denver	7.75	7.85	8.23	8.20	8.40	8.02	7.93	7.96	7.82	8.32	8.68
Detroit	9.59	9.90	9.80	9.91	10.57	11.34	11.20	11.23	11.28	10.85	11.20
Houston	8.92	8.92	9.55	9.20	9.00	9.10	9.15	8.83	8.78	9.03	9.96
Kansas City	5.23	5.55	5.55	5.65	5.46	5.49	5.57	5.82	5.23	5.93	5.97
Los Angeles	11.13	11.46	11.73	11.81	12.16	11.72	11.66	11.10	11.15	11.40	11.30
Milwaukee	9.14	8.81	8.72	8.54	8.72	9.90	10.16	10.14	9.94	9.83	10.05
Minneapolis	7.18	6.53	7.21	7.41	7.74	7.98	7.97	7.94	7.85	7.80	7.89
New Orleans	5.81	5.90	6.63	7.07	7.32	7.15	7.13	6.87	7.03	7.26	8.09
New York	12.60	13.29	14.21	14.29	14.19	14.08	14.02	13.45	13.20	13.00	13.79
Omaha	6.30	6.53	6.21	6.35	6.69	7.03	6.90	6.91	6.57	6.42	6.32
Philadelphia	7.22	7.06	7.33	7.36	7.40	7.54	7.70	7.86	7.90	7.85	7.66
Pittsburgh	9.17	9.21	9.40	9.26	9.68	10.42	10.65	10.52	10.04	10.21	10.25
Richmond	8.52	7.82	7.26	7.34	8.06	8.30	8.70	8.59	9.17	9.15	8.88
Saint Louis	7.44	7.59	7.60	7.60	7.89	7.88	7.34	7.74	8.04	8.43	8.04
Salt Lake City	6.86	7.05	7.04	6.99	6.82	6.61	6.49	6.67	7.27	7.92	7.78
San Francisco	8.99	9.37	9.64	9.83	10.30	10.90	10.58	10.30	9.95	9.97	10.31
Seattle	6.58	6.49	6.59	6.69	7.04	7.14	7.26	7.26	7.31	7.24	7.01
Tulsa	7.42	7.65	8.23	8.74	8.84	8.45	8.17	8.39	8.48	8.86	9.19
HEATED APARTMENT UNITS											
National Index	60.1	60.9	61.0	61.5	64.0	65.4	67.1	66.5	66.5	66.6	66.6
Atlanta	9.45	9.36	9.70	10.20	10.62	10.36	10.32	10.45	10.88	10.80	10.95
Baltimore	9.55	9.54	9.32	9.64	10.28	10.60	10.66	10.70	11.03	11.27	10.72
Birmingham	8.90	8.95	8.69	8.74	8.83	9.10	9.54	9.58	9.50	9.40	9.15
Boston	13.20	13.27	13.50	13.94	13.68	13.67	14.02	14.00	14.11	14.43	14.57
Chicago	12.10	11.97	12.23	12.30	12.59	12.72	13.20	13.60	13.90	13.15	12.88
Cincinnati	12.20	12.12	12.50	12.92	13.12	13.22	13.67	13.34	12.87	12.61	12.67
Cleveland	11.81	11.71	11.70	12.08	13.68	14.56	14.62	14.60	14.18	13.22	12.55
Columbus	12.13	12.13	11.72	11.28	11.58	11.72	12.69	13.11	13.25	12.59	11.42
Denver	12.09	12.08	11.83	12.00	12.38	13.28	13.40	13.71	13.79	14.70	14.40
Detroit	11.32	11.45	11.58	11.69	12.00	12.50	13.18	13.69	13.40	13.11	12.10
Houston	10.50	11.03	10.60	11.08	11.08	11.12	11.51	11.55	11.60	11.02	10.40
Kansas City	7.11	7.12	7.05	7.11	7.09	7.09	7.04	7.23	7.11	7.52	7.56
Los Angeles	12.66	13.17	12.51	12.58	12.69	13.26	13.80	14.46	14.57	15.25	15.15
Milwaukee	9.65	10.00	10.30	10.62	10.87	11.11	11.51	11.76	12.07	11.88	11.57
Minneapolis	9.04	9.35	9.17	9.51	9.96	10.75	11.17	10.45	10.22	10.00	10.12
New Orleans	8.31	7.90	8.48	9.19	9.25	8.95	9.07	8.65	9.38	9.60	9.98
New York	18.84	18.90	19.00	19.08	19.48	20.22	20.10	19.62	19.15	19.00	19.60
Omaha	10.51	11.01	11.09	10.90	10.32	10.42	10.50	10.37	10.42	10.75	10.70
Philadelphia	14.75	15.64	14.98	14.50	14.22	14.09	14.92	14.91	14.80	15.41	14.72
Pittsburgh	9.90	10.19	10.48	11.09	12.22	13.28	13.30	13.05	13.89	14.04	14.06
Richmond	11.62	11.72	11.53	10.72	10.82	10.53	11.16	11.42	11.22	11.52	11.58
Saint Louis	10.29	10.38	9.71	9.90	9.79	10.04	10.40	10.19	10.35	10.44	10.60
Salt Lake City	9.12	9.40	9.99	10.54	10.80	11.07	10.80	10.68	11.00	11.38	11.09
San Francisco	12.28	12.43	12.90	13.19	13.39	13.70	14.00	13.98	14.40	14.32	14.24
Seattle	10.65	10.79	10.82	10.75	10.67	10.98	10.73	10.52	10.41	10.90	11.34

*Preliminary

xNewspaper strike

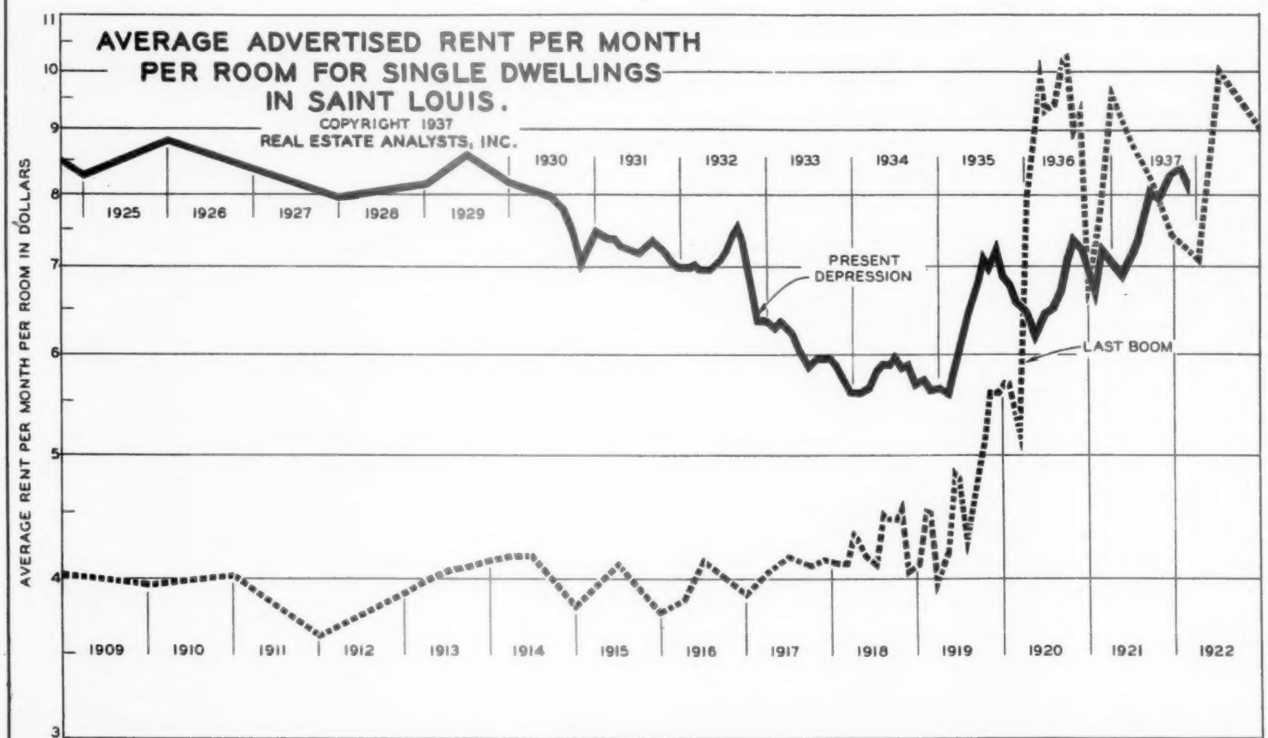
COMPARISON OF ADVERTISED RENTS

EACH advertisement of a place for rent appearing in the newspapers of the principal cities of the United States is carefully studied, and from this Real Estate Analysts, Inc., computes for each major city the average advertised rent per month per room. Advertised rent is not actual rent, but it indicates what owners of property believe they can get for the units then vacant. Sometimes they become too optimistic; and as the renting season progresses without their vacancies filling, they become panicky and drop the advertised rent below the market.

We believe that in many ways advertised rents are a forecast of actual rents, that they go up faster than actual rents and that they drop more rapidly during a period of depression.

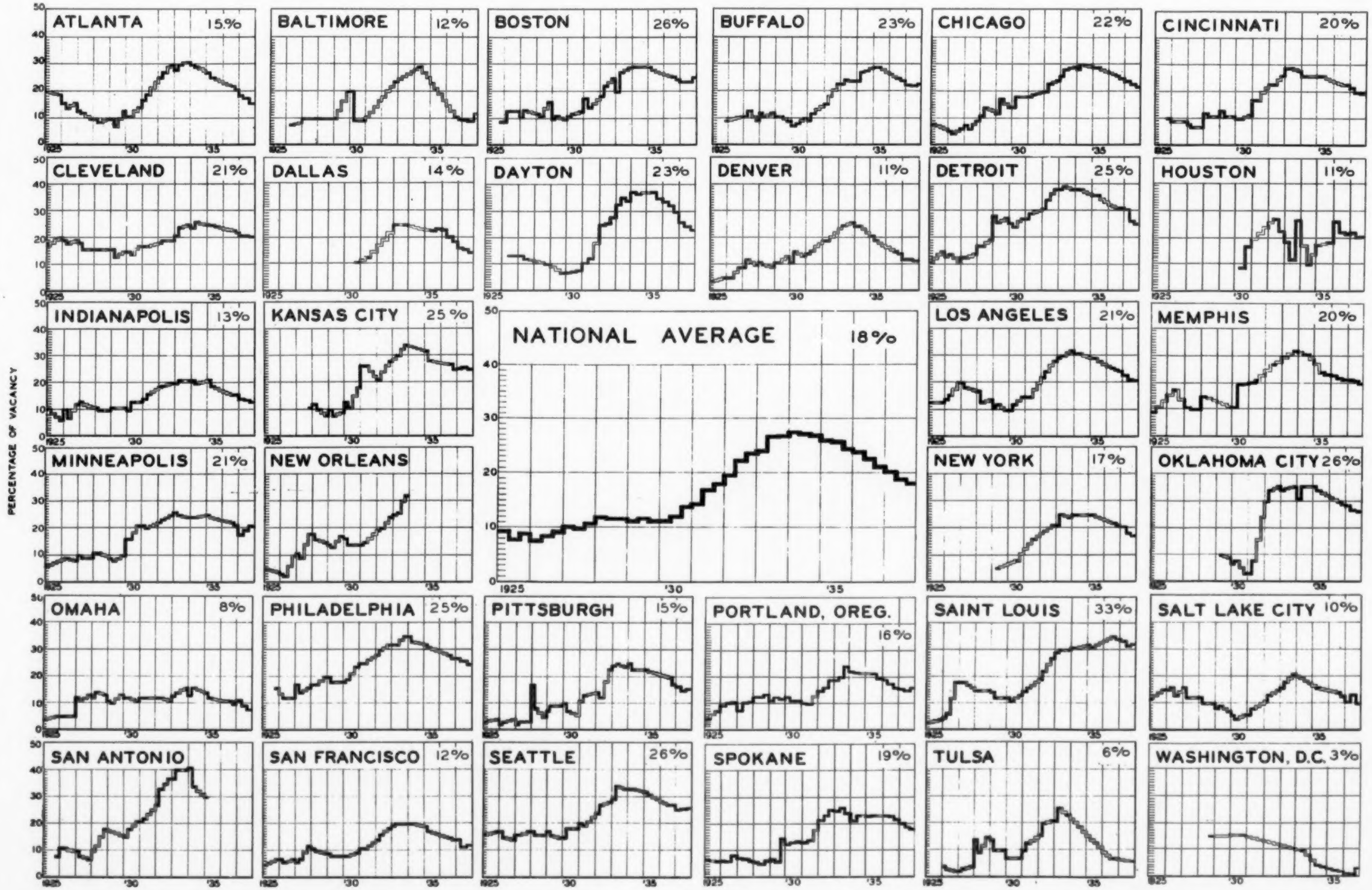
The chart below shows advertised rents in Saint Louis for single family dwellings, comparing the period preceding the last boom and the boom itself with the period from 1925 to the present. A similar chart which we have prepared on apartment rents does not show as large an increase in the last few years as we have charted here, due to the fact that apartment vacancy in Saint Louis is still larger than vacancy in single family dwellings and duplexes.

The very satisfactory movement of this single family advertised rent line, however, would indicate to us that after a recession in advertised rents, which will develop during the next few months, there is a strong probability that the advertised rent line will again advance until it exceeds the level of the last boom. We would not be surprised, however, to see a recession in our advertised rent line during the next six to nine months somewhat similar to the recession of 1921 and the early part of 1922.



OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

CHARTED BY REAL ESTATE ANALYSTS, INC., SAINT LOUIS, FROM DATA FURNISHED BY THE NATIONAL ASSOCIATION OF BUILDING OWNERS AND MANAGERS



THE STOCK MARKET AND REAL ESTATE

THE chart on the spread opposite shows the fluctuations of the Dow-Jones industrial and railroad stock price averages for the entire period for which they are available in comparison with the fluctuations in general business as charted by Colonel Ayres of the Cleveland Trust Company and the real estate cycle as charted by Real Estate Analysts, Inc. The number of shares traded on the New York Stock Exchange on a per capita basis is shown by the red line crossing the general business cycle chart. The foreclosure rate and the volume of new building are shown by the lines superimposed on the real estate activity chart. The red vertical stippled bands A to F crossing the chart designate the months in which the Dow-Jones industrial average was falling by a large enough percentage or for a long enough period to equal or exceed the fall we have had in this average since this last spring. These stippled bands make it quite easy to compare these bear market periods with general business conditions and real estate.

We believe that the following deductions seem more or less self-evident:

1. Each of these bear markets has been accompanied and followed by a marked recession in general business.

2. Each of the bear markets, with but one exception (band A), has been accompanied by declining real estate activity.

3. Each of these bear markets, with but one exception (band D), has been accompanied by declining building volume.

4. Three of these bear markets (A,D,F) have been periods of falling foreclosures and three have been periods of rising foreclosures (B,C,E).

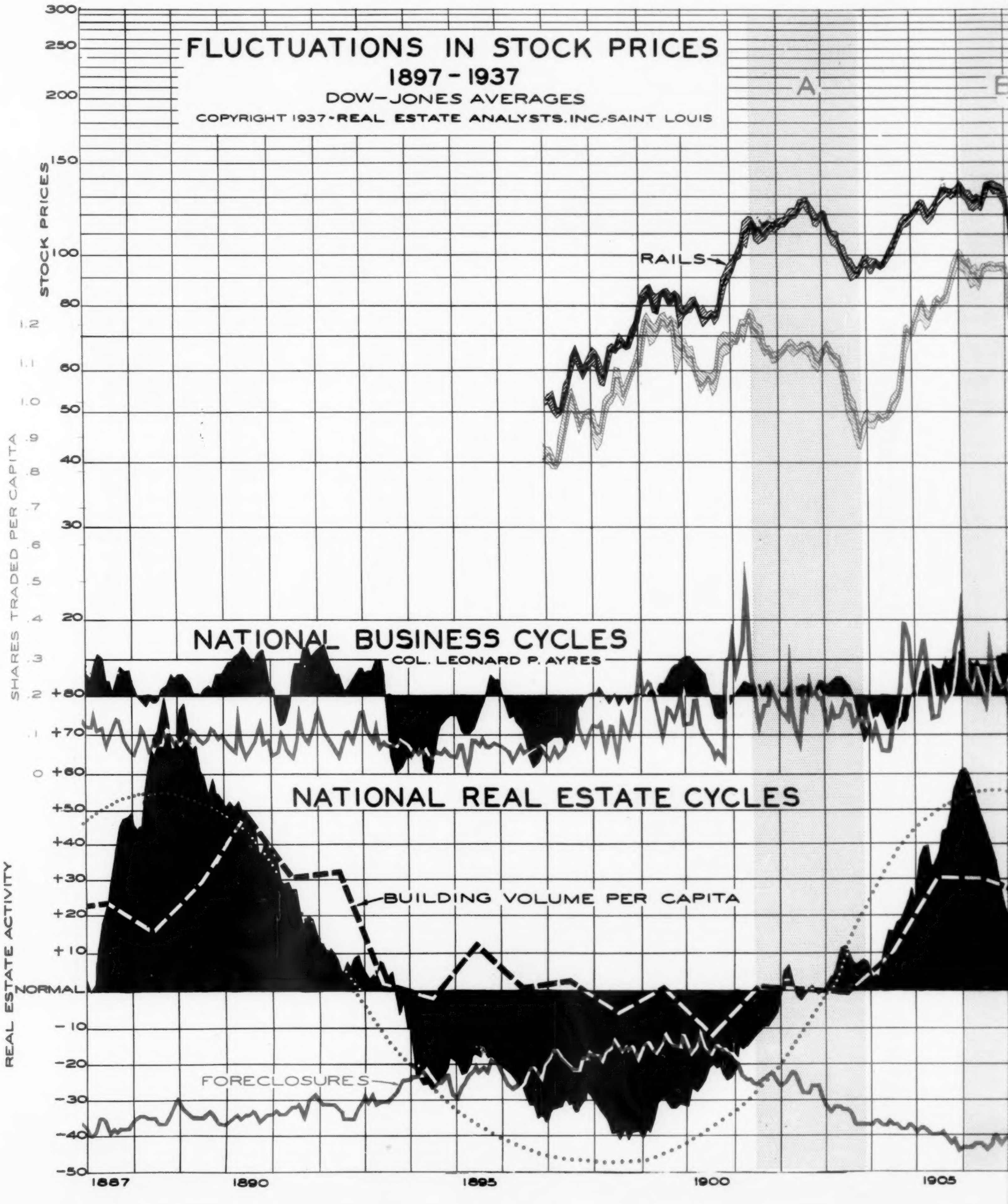
5. Three of the periods have occurred when the basic idealized capital goods cycle (shown by the red dotted line and explained in detail in Confidential Bulletin 37-7) was in the upward swing (A,D,F); and three, when it was in the downward swing (B,C,E). Those bear markets which occurred in the falling cycle (B,C,E) had a more severe effect on real estate than those which occurred in the rising cycle (A,D,F). No major real estate depression has occurred from 1795 to the present when this idealized curve was swinging up, although limited recessions in recovery have often accompanied the rising swing (see page 728 of the May, 1937, Real Estate Analyst).

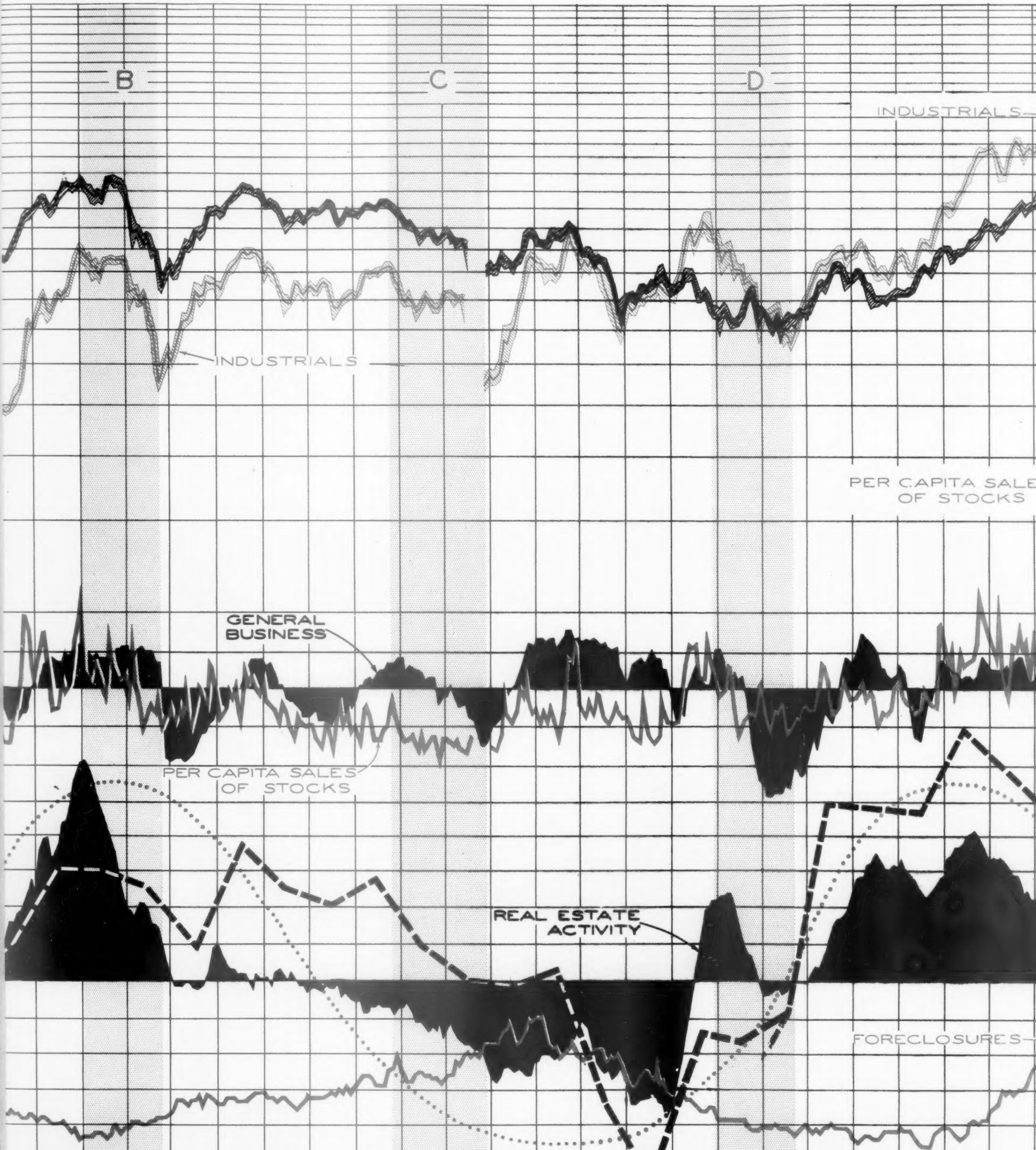
6. Only in the stock market break accompanying the great depression (E) did the Dow-Jones averages fall by a greater percentage in an equal period than the fall we have experienced in the last eight months.

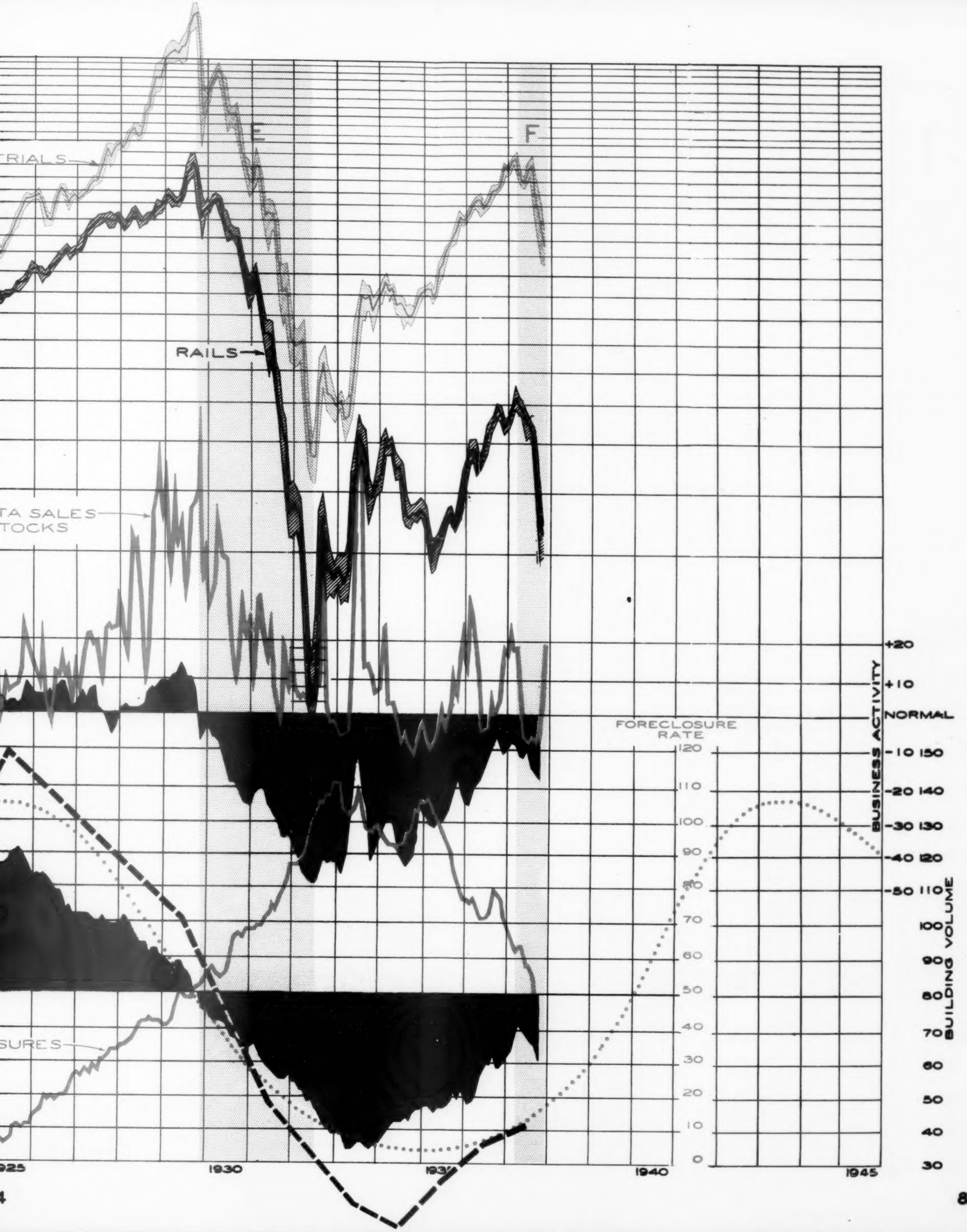
7. Recovery of real estate after the stock market break has been rapid in those periods which occurred when little building was taking place (A,D). Recovery has been slower in those periods when the break occurred after building had gone forward in considerable volume (B,C,E).

8. Aside from the intensity of the break in the market, the

(continued on page 829)


FLUCTUATIONS IN STOCK PRICES
1897 - 1937
DOW-JONES AVERAGES
COPYRIGHT 1937-REAL ESTATE ANALYSTS, INC.-SAINT LOUIS
STOCK PRICES
SHARES TRADED PER CAPITA
RAILS
A
B
NATIONAL BUSINESS CYCLES
COL. LEONARD P. AYRES
NATIONAL REAL ESTATE CYCLES
BUILDING VOLUME PER CAPITA
FORECLOSURES
REAL ESTATE ACTIVITY
NORMAL
1887
1890
1895
1900
1905


B
C
D
INDUSTRIALS
INDUSTRIALS
PER CAPITA SALES OF STOCKS
GENERAL BUSINESS
PER CAPITA SALES OF STOCKS
REAL ESTATE ACTIVITY
FORECLOSURES
1905
1910
1915
1920
1925


E
F
TRIALS
RAILS
TA SALES
TOCKS
FORECLOSURE
RATE
BUSINESS ACTIVITY
+20
+10
NORMAL
-10 150
-20 140
-30 130
-40 120
-50 110
100
90
80
70
60
50
40
30
BUILDING VOLUME
120
110
100
90
80
70
60
50
40
30
20
10
0
SURES
925
1930
193
1940
1945

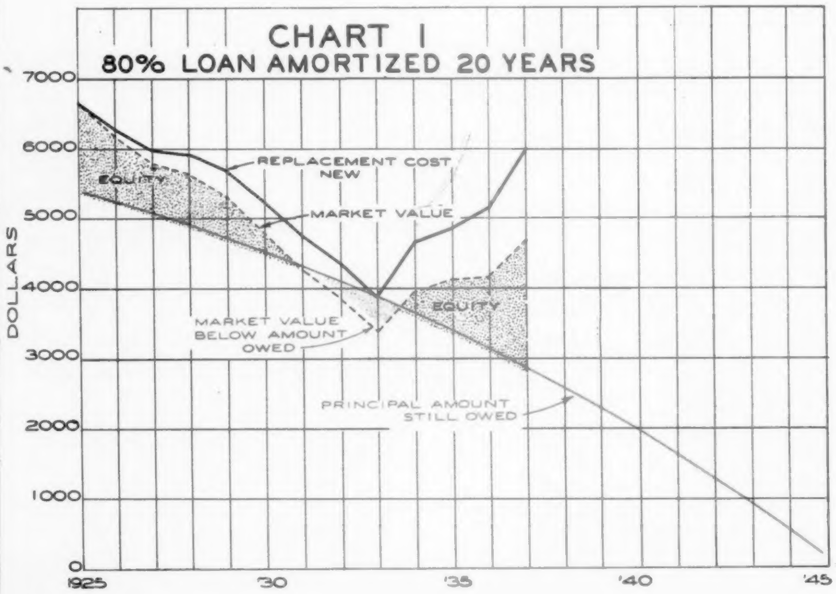
NINETY PERCENT LOANS FOR REAL ESTATE

THE liberalization of the Federal Housing Administration insurance plan to cover ninety instead of eighty per cent loans on residential properties costing less than $6000 has been recommended to Congress and is being seriously considered. The argument for this liberalization is that a large number of families in the United States cannot afford a twenty per cent down payment and that by changing the requirements to a ten per cent down payment, home ownership will become possible to a larger group, with a resulting rise in construction and a fall in unemployment. As many people feel that recovery from the present recession depends largely on the construction industry, this ninety per cent plan is certain to find considerable backing..

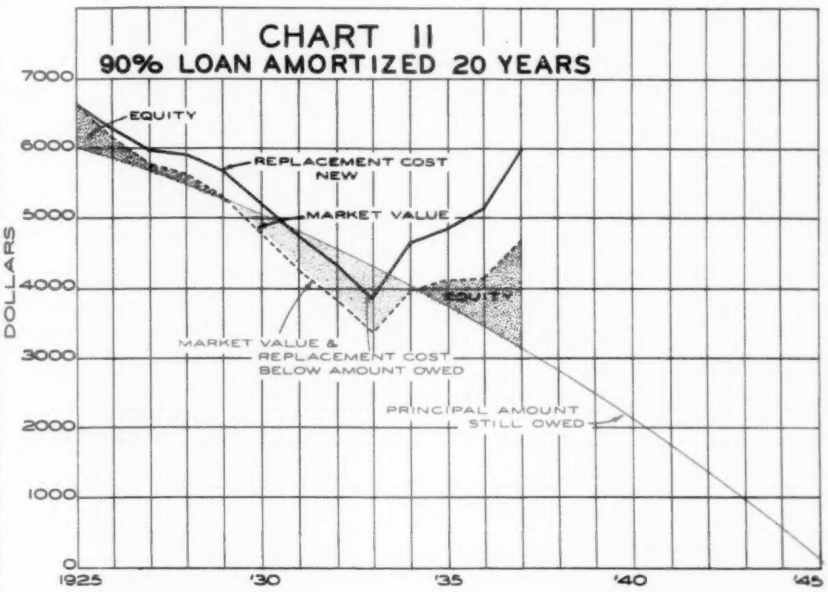
The five charts on this and the following pages constitute an effort made by Real Estate Analysts, Inc., to examine carefully, without prejudice, the various possibilities in the lending field and the relative safety in various plans for both the mortgagee and the home owner. The conclusions suggested by these charts are not the conclusions of Real Estate Analysts, Inc., but are the conclusions of the facts themselves.

In the charts which accompany this article we are assuming that any policy now proposed should be tested by applying it to the period in which the largest number of loans was made and the greatest amount of building done in the moderate price field. In other words, what would have happened to loans made in 1925 on the basis now proposed?

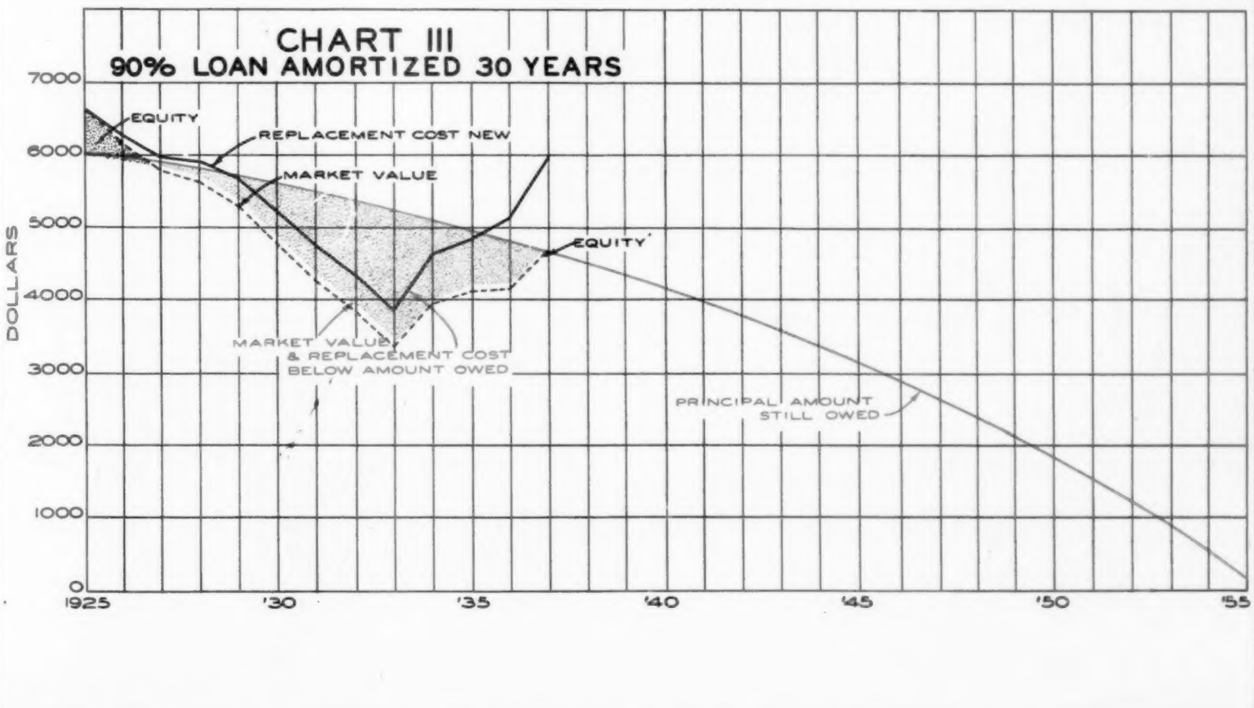
Of course, it will be argued that using the period from 1925 to 1937 places an unusually severe test on the proposed policies as this period contained the most severe real estate collapse experienced in the past fifty years. While this is true, a stabilized economy is still a theory in grave danger of being disproven by the present recession. It seems to us that collapses similar to the one we have come through in the last few years are still possible in the future.



The chart to the left shows the way a property would have come through if financed in 1925 on the present eighty per cent, twenty-year amortized loan, insured by the FHA. A building, which on the average in 1937 would have cost $6000, would have cost $6670 in 1925. The variation in the replacement cost of this property is shown year by year by the top line on the chart. This line includes all items of cost, such as labor, materials, overhead, permits, ground and the



profits of the subcontractor and contractor. The dashed line, starting at the same point in 1925, represents the market value of this property year by year. The bottom line on the chart shows the original amount of the loan at eighty per cent of the value of the property and the way the principal amount declines over the twenty-year period as monthly payments of slightly less than $40 are made for principal, interest, insurance and servicing charge. The gray shaded area on this chart represents the equity above the mortgage at any time during the past twelve years, and the red shaded area represents the period in which the market value of the property was less than the amount owed. It will be noticed that in 1931 the value of the property had declined until it was just equal to the amount still owed on the loan, after payments of slightly less than $40 per month had been made for six years. In 1932 and 1933 the property was worth less than the amount still owed. The recovery in real estate values which started in 1934 restored a slight equity which has been growing each year since due to the increase in real estate values and to the more rapid decrease in the amount still owed.



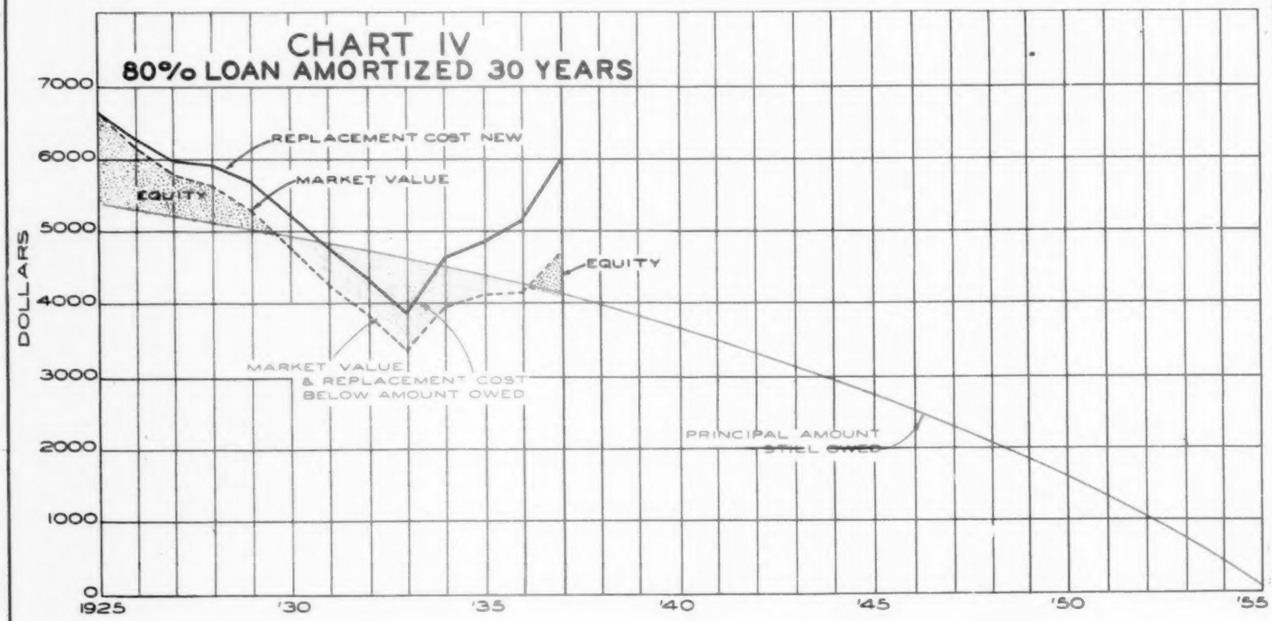


Chart II shows the same picture, revised for a ninety per cent loan. The replacement cost new on this chart is the same as on Chart I, as is the market value of the property. The loan, however, is now \$6000, with payments of approximately \$45 per month for interest, principal, service charge and insurance. A ninety per cent loan would have been in trouble as early as 1930, as at that time the value of the property would have been less than the amount still owed on the loan. This discrepancy would have increased in 1931, 1932, and 1933; and in 1934, after monthly payments had been made on the principal and interest for a period of nine years, the property would have been worth only as much as the amount still outstanding on the principal of the loan. In 1932 and 1933 it would have been possible to have built a new building for less than the amount still owed on the property, which at this time was eight or nine years old.

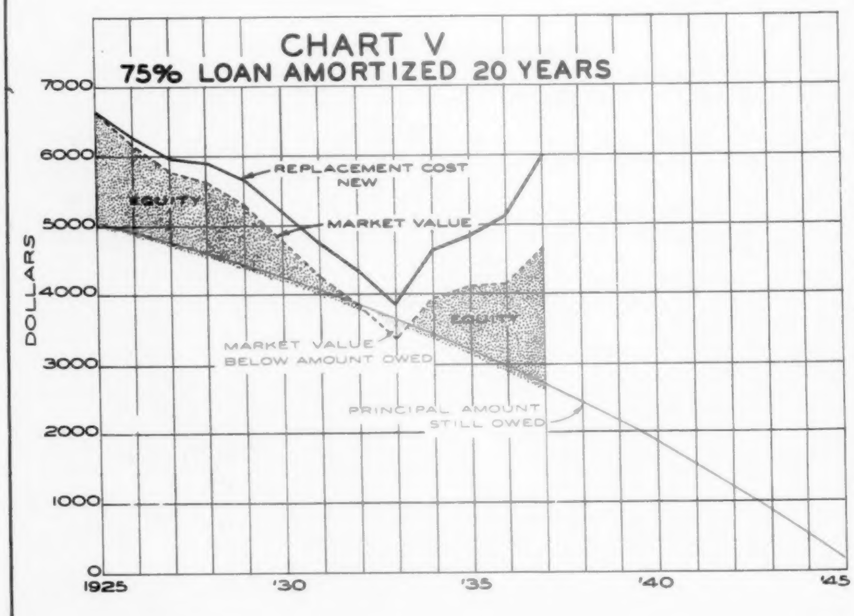


Chart III shows an examination of another suggestion which has been made--loans amortized over a thirty-year instead of a twenty-year period. It will be noticed that on this chart the loan gets into difficulty after just two years of life and that in 1928, 1929,1930,1931, 1932, 1933, 1934, 1935 and 1936 the property would have been worth less than the amount still owed on the principal; and in 1930,1931, 1932, 1933 and 1934 a new property could have been built for less than

the amount still owed on the old property.

Chart IV considers the possibility of liberalizing the FHA plan by keeping the present eighty per cent loan, but amortizing over thirty years instead of twenty years. It can be seen quite quickly that any thirty-year amortization plan, unless the loan is fifty per cent or less, will get into trouble sooner or later in a fluctuating market, as values may drop far faster than the principal is reduced by monthly payments. Chart V shows a seventy-five per cent loan amortized in twenty years; and it appears that this loan, regardless of rising or falling markets, is a safe loan at practically all times.

These charts suggest to us that over a period of years a ninety per cent loan is not safe and that a period of amortization on a high percentage loan should not exceed twenty years. We know that it will be said that a twenty or twenty-five per cent down payment is impossible in a large percentage of cases and will prevent home ownership. This we will not deny, but we would ask in return whether home ownership on an insufficient margin with the probable total loss of all payments made would be conducive to the best interests of the home owner or the mortgage lender. True, it might stimulate a volume of new building for awhile; and if adopted as a temporary policy for the next two years only, we believe that it would not do any great damage. However, policies of this sort tend to become permanent. We realize that in Europe, where communities are matured and where fluctuations are less erratic and wild than they are in a newer country, loans for a larger percentage and for a longer number of years can be made.

(continued from page 822)
present break is occurring when real estate and building conditions resemble most the conditions which existed in 1901-1903 and in 1919-1921 (A,D).

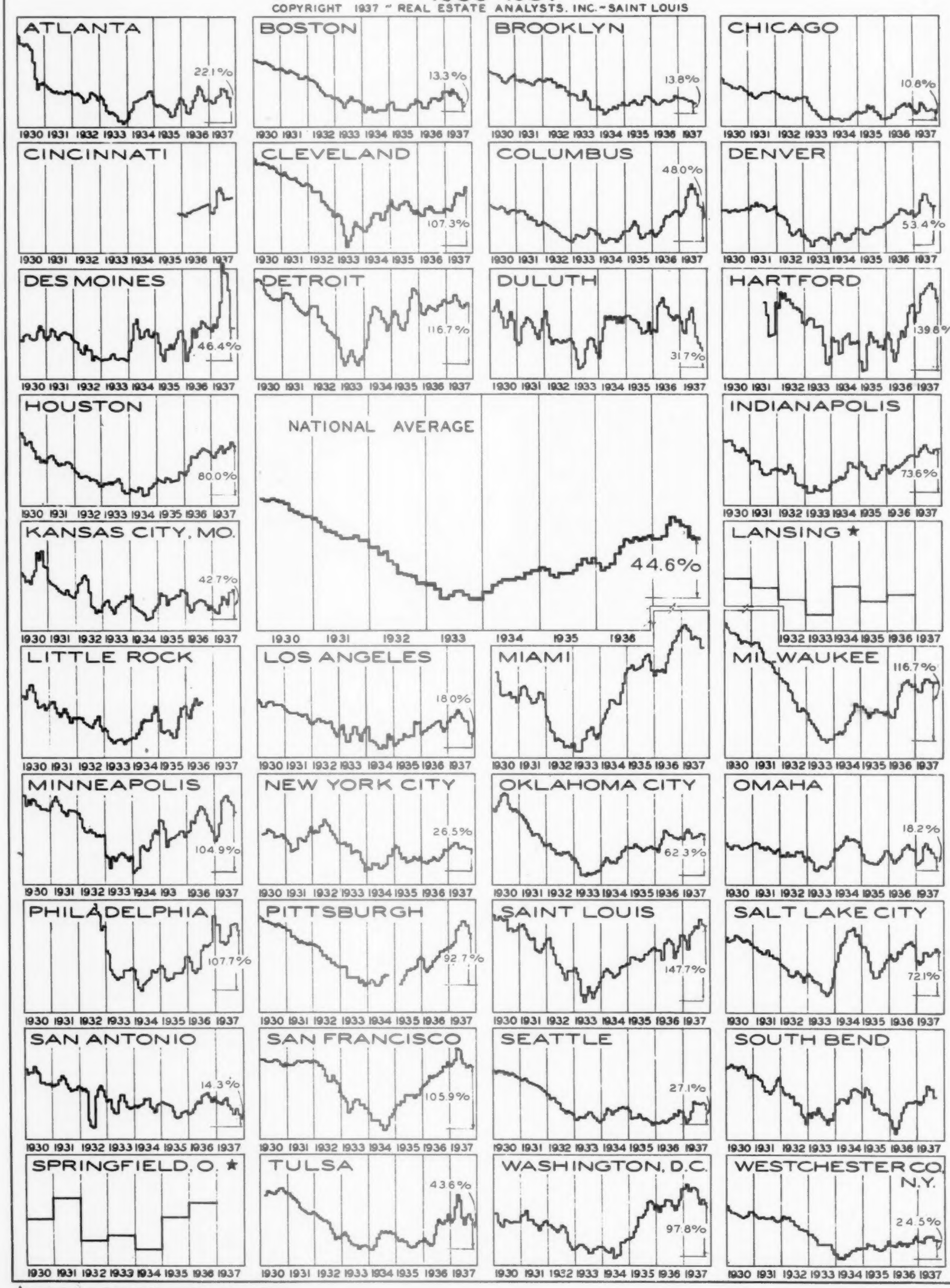
Conclusion

The stock market may have lost some of its barometric significance due to "control", which has caused a thin market very liable to take extreme swings. However, the intensity of the break leads us to believe that in many respects the period immediately ahead may be similar to 1920 and 1921 (D).

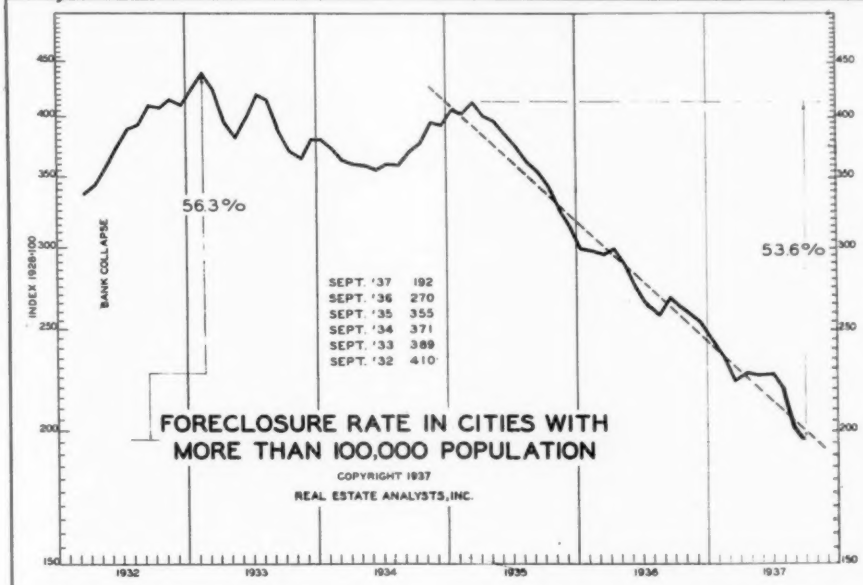
We are inclined to believe that the trend of business will be down for some time longer; that prices will drop, but not in any such fashion as the drop of 1920 and 1921; that new building will pause in its rise for awhile; and that residential vacancies will increase slightly, halting for a time the rapid rise in residential rents which has been taking place in the last two years. Real estate sales will fall off slightly, but we expect foreclosures to continue an irregular course downward. If the market does not recede still further, we believe that by next summer real estate will again be heading toward the boom, the peak of which we believe probable sometime in the middle forties.

REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

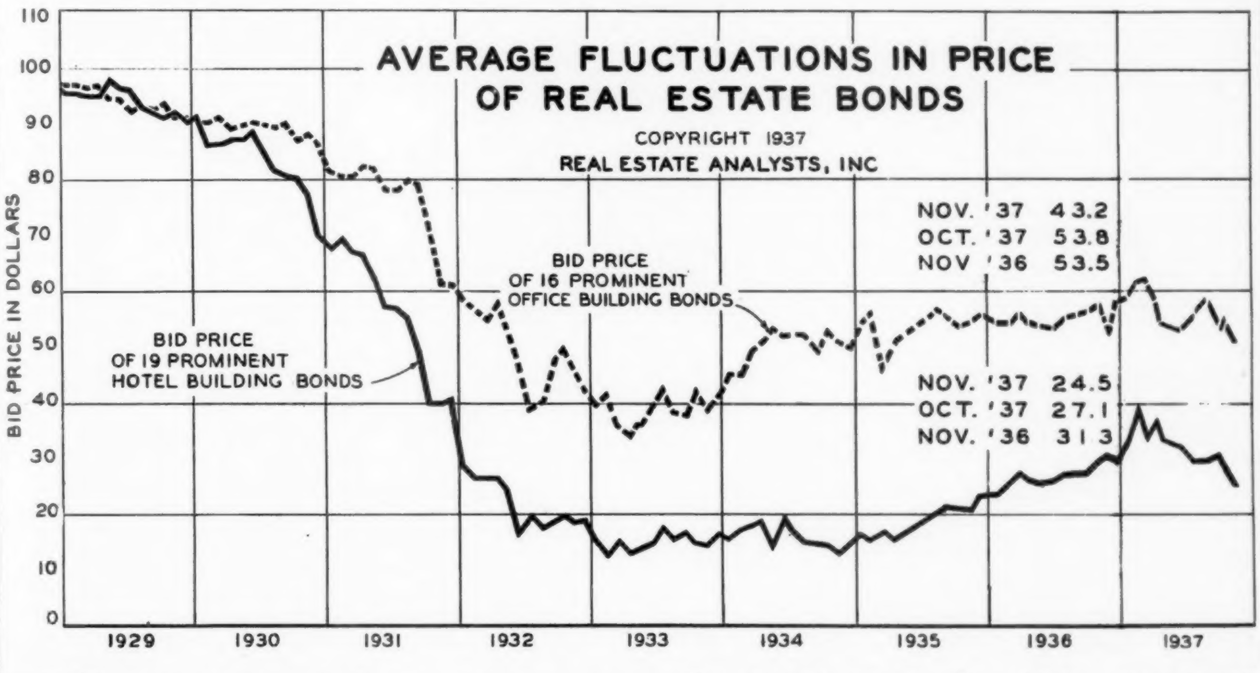
1930-1937



★ MONTHLY FIGURES NOT AVAILABLE



THE chart to the left shows the monthly fluctuations in the foreclosure rate in cities having more than 100,000 population. This chart is corrected for seasonal fluctuation and is based on the compilations made by the HOLC. The dashed line on this chart shows the straight line trend, or the rate at which foreclosures have been declining. If this rate continues, foreclosures will be back to the 1926 level by the spring of 1940. In 1926 foreclosures were practically negligible, as we were just passing the top of the last real estate boom at that time.



THE chart above shows the average fluctuations in the bid prices of office and hotel building bonds. The buildings used are only those on which quotations can be secured monthly. The office building list includes the following: Broadway Motors, Bryant Park, Bush Terminal, Carbide and Carbon, Chesebrough, Chrysler, Cleveland Terminal, Equitable (N. Y.), Graybar, Grant, Liggett, One LaSalle Street, Postum, Textile, Wanamaker (Phila.), Woodbridge. The hotel list is composed of issues of the following: Bowman-Biltmore, Eastern Ambassador Hotel, Eppley Hotels, George Washington Hotels, Hotel Lexington, Hotel Sherman, Hotel St. George, La Salle Hotel, Lord Baltimore, National Hotel of Cuba, Palace Hotel, San Francisco, Park Central Hotel, Pitts Hotel, Savoy-Plaza, Sevilla-Biltmore, Sherry-Netherland, Stevens Hotel, Waldorf-Astoria.